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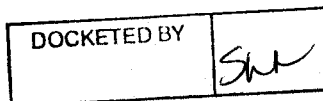


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ARIZONA CORPORATION COMMISSION

June 22, 2007
Arizona Corporation Commission
DOCKETED

JUN 22 2007



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Diamond Valley Water District
1848 Emerald Drive
Prescott, Arizona 86301

RE: **DIAMOND VALLEY WATER USERS CORPORATION** (Docket No. W-03263A-07-0244)

Dear District Board Members:

I have received and reviewed the letter from the Diamond Valley Water District ("the District") dated May 25, 2007. Before responding directly to the letter, I would like to update the District on the status of some of the information you requested. Staff has requested and is awaiting receipt of a copy of the Sanitary Survey from the Arizona Department of Environmental Quality. Upon receipt, Staff will supply the District with a copy. Staff has also completed an audit of the surcharge and is currently preparing a memo about that audit which you will receive when filed. Finally, Staff has been notified that the audit performed by a Certified Public Accountant hired by the Interim Manager is complete and under final review. You will also receive a copy of that audit report and opinion as soon as possible.

I am, of course, disappointed by the comments in your May 25th letter which was docketed on May 30, 2007. The letter indicates that the District is not satisfied with Staff's April 27, 2007 response to the District's April 9, 2007 Letter of Intent. The May 25th letter also indicates that the District remains of the opinion that the Commission has the ability to make certain guarantees and perform certain services on behalf of the District. Finally, the letter concludes that the Commission has not communicated with the District in a "cooperative and transparent" manner.

It is my opinion that by corresponding in writing and docketing the correspondence, transparency of the process is assured. Also, Staff endeavors to be cooperative in its interaction with all government entities, including water districts. The fact that we may have disagreements regarding the Commission's authority under the statute, or the reasonableness of the District's demands upon the Commission should not be misinterpreted as being uncooperative. Staff remains interested in assisting the District in any way we are able, if you are truly interested in acquiring the assets of Diamond Valley Water Users Corporation ("DVWUC").

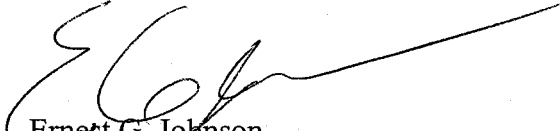
Unfortunately, it appears that the District is unwilling to proceed in a manner that is consistent with Staff's view of the Commission's authority. I am forced to reiterate that Staff is unable to offer any guarantees or perform any services for the District other than those listed in

Staff's April 27, 2007 letter. If the District continues its demands of Staff and the Commission, it does not appear likely that the transfer, as envisioned, can take place.

In the event that the District no longer wishes to acquire the assets of DVWUC, in the absence of the requested guarantees and services, please let us know. We have received an inquiry that could provide an opportunity for the customers of DVWUC to obtain service from a qualified public service corporation, rather than the District. Because of the limitations imposed by the statutory scheme, any such transaction would involve the simultaneous transfer of the assets of DVWUC to the District and the transfer of the assets from the District to another individual or entity. If such a transaction would be preferable to the District, please let us know. Staff's objective in this matter has always been to secure a long term solution to the difficulties that have plagued the DVWUC system since its inception. While the District would generally appear to provide a mechanism to accomplish this objective, the District's reluctance to move forward with the acquisition is disappointing. As a result, the existence of another alternative provides DVWUC customers with an additional opportunity to resolve these ongoing difficulties by placing a responsible entity in possession of the system.

In the meantime, Staff will file a request for a procedural order in the docket. The procedural order would set the times and dates for the filing of a Staff Report, the District's response and for a hearing on this matter.

Yours truly,



Ernest G. Johnson
Director
Utilities Division

EGJ:LAJ:tdp

CC: Docket Control Center (Original and Thirteen Copies)
Don Bohlier, Diamond Valley Water Users Corporation